

Strategic Use of RGGI Funds in Rhode Island

I. Background

This document outlines the principles that will guide allocation of RGGI funds from auctions conducted in 2012 through future years. Although the amount from future auctions is uncertain, there is prospect that the total funds will increase significantly for one or more years. As state entities and energy stakeholder groups¹ continue to plan for and implement Rhode Island's Least Cost Procurement, RGGI and other energy laws, this document is intended to provide information about the purposes and the strategic priorities that Rhode Island will seek to advance through the distribution of these funds. The guidelines for fund allocation are based on state energy legislation, recommendations emerging from the Rhode Island State Energy Plan and conversations with energy stakeholders.

Rhode Island is in a unique situation among the RGGI states in that one utility manages almost the entire electricity and gas distribution system and administers all of the regulated state energy efficiency programs (both electric and natural gas). The fact that Rhode Island has a single energy utility offers several advantages:

- There is an excellent opportunity to provide integrated energy services to customers through a single provider. (Although this is not as true for the nearly 50% of the state customers who heat their homes with delivered fossil fuels.)
- There is only one provider entity to deal with as energy efficiency partnerships are developed with contractors, vendors, and the design community
- There is only one entity to deal with when focusing on market segments that need improved service (e.g. low income multifamily housing, grocery stores, agriculture, etc.) or state entities that can become partners in promoting and implementing efficiency strategies (e.g. state government or municipal facilities.)
- There is a great opportunity for innovative pilot programs to reduce electricity use through integration of distributed generation, energy efficiency and demand response.
- Small investments in innovative, comprehensive all-fuels and all-resource strategies can have a direct and immediate impact on the course of utility investment.

On the other hand, the presence of the single regulated utility as the dominant institutional structure for delivering efficiency services can create a programmatic bias (albeit understandable) toward "traditional" utility energy efficiency programs that are focused on meeting regulatory-determined savings targets. OER believes there is a significant opportunity to use RGGI (and other funds) to reach new market segments, identify new opportunities, and find new efficiency, generation and energy management opportunities across all forms of energy production and uses that will advance a broad definition of "least cost procurement."

1. The annual RGGI allocation plan is developed by the Office of Energy Resources with the approval of the Energy Efficiency & Resource Management Council and in consultation with the Renewable Energy Coordinating Board (RECB) and the Department of Environmental Management (DEM).

In Rhode Island, strategic use of RGGI funds must go beyond simply transferring the funds to the utility to use for ‘cost-effective energy efficiency’. Rather, the RGGI funds should be deployed in ways that promote collaboration among the utility, state regulators, policy makers and energy stakeholders. These parties must work together to review and reform the utility business model and identify practices that minimize investment risks on behalf of consumers and the utility while building a comprehensive clean, reliable and affordable energy system for the future.

II. Legislative Purpose of RGGI

The legislative purpose of RGGI is stated in RIGL 23-82-2 (4): *Rhode Island's implementation of the Regional Greenhouse Gas Initiative, (hereinafter referred to as "RGGI"), should be managed to maximize the state's contribution to lowering carbon emissions while minimizing impacts on electric system reliability and costs to Rhode Island power consumers over the long term. Adoption and use of cost-effective energy-efficient products and programs and the strategic use of low and zero carbon generation are the best means to achieve these goals.* Specific guidance in the statute is as follows:

§ 23-82-6 Use of auction or sale proceeds. – (a) The proceeds from the auction or sale of the allowances shall be used for the benefit of energy consumers through investment in the most cost-effective available projects that can reduce long-term consumer energy demands and costs. Such proceeds may be used only for the following purposes, in a proportion to be determined annually by the office in consultation with the council and the board:

- (1) Promotion of cost-effective energy efficiency and conservation in order to achieve the purposes of § 39-1-27.7 entitled “System Reliability and Least Cost Procurement”;
- (2) Promotion of cost-effective renewable non-carbon emitting energy technologies in Rhode Island as defined in § 39-26-5 and to achieve the purposes of chapter 39-26 entitled "Renewable Energy Standard";
- (3) Cost-effective direct rate relief for consumers;
- (4) Direct rate relief for low-income consumers;

III. Priorities for Funding for 2012 - 2014

Consistent with legislative guidance and with priorities emerging from the update of the Rhode Island State Energy Plan, RGGI funds will be used to support the development, enhancement and/or acceleration of efforts that achieve cost-effective, cost-efficient and sustainable energy efficiency, renewable energy and carbon-reduction products and services. Specifically, funds from auctions conducted in 2012, 2013 and 2014 will be allocated in two categories as outlined below.

Energy Efficiency – 60%

Approximately 60% of RGGI funds will be used to support the implementation of annual energy efficiency programs by National Grid, subject to oversight by the state (the OER, EERMC, RECB, DEM)

and in consultation with other stakeholders. Priority will be given to efficiency programs that drive deeper, broader and more long-term savings such as projects that:

- a) Build infrastructure and capacity in Rhode Island's economy for Least Cost Procurement (LCP) as specified in RI law – the funds shall be used to help develop capabilities that can enhance and expand on existing offerings and drive deeper, long-term savings;
- b) Promote innovation and development of cutting edge technologies and strategies that achieve deeper savings.
- c) Facilitate efficiency savings in hard-to-reach audiences.
- d) Improve financing tools and capabilities.

Examples of projects that could be funded in this category include:

- (1) Exploring the costs and benefits of new technologies such as heat pumps;
- (2) Providing temporary support for delivered fuel energy efficiency programs while exploring new business opportunities that will lead to cleaner and more efficient energy use for the 40% of Rhode Islanders who rely on delivered fuels;
- (3) Provision of additional working capital for revolving loan fund for commercial or large commercial/industrial customers;
- (4) Innovative programs to leverage energy efficiency funds with other funding sources (asthma prevention, lead abatement, home health care) to drive electricity efficiency in hard-to-reach populations;
- (5) Net zero energy pilot buildings that can be replicated cost-effectively.

Integration of Efficiency with Renewable Energy, Grid Modernization & Innovation – 40%

Approximately 40% of the RGGI funds will be used to support work to diversify RI's energy resource portfolio, with emphasis on integration of energy efficiency and renewable energy resources, and on the rapidly evolving smart grid technologies. The funds will be used to implement innovative projects to reduce carbon emissions from electricity generation. Specific projects funded each year will vary but potential projects may include:

- a) Deployment of renewable energy in innovative ways including integration with System Reliability Planning (SRP), energy efficiency and demand response programs as specified in RI law;
- b) Analysis and deployment of thermal renewable projects to reduce greenhouse gas emissions;
- c) Grid modernization – projects to incentivize the electric distribution company to adopt grid modernization technologies and practices in order to enhance the reliability of electricity service, reduce electricity costs, increase efficiency and otherwise reduce greenhouse gas emissions related to electricity generation.

IV. Timeframe for Annual Allocation Plan

In order to insure timely distribution of RGGI funds, the following schedule will guide the development of the Annual Allocation Plan:

- a) March 1 - Distribution of draft allocation plan to consulting parties including the EERMC and DEM
- b) May 15 – Posting of annual allocation plan for 30 days
- c) June 15 – Public Hearing
- d) July 15 – Incorporation of comments from Public Hearing
- e) August 1 – Allocation Plan finalized